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Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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Productivity Commission

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EY Australia Response to the Productivity Commission's Interim Report: Investing in cheaper, cleaner energy and the net zero transformation

EY recognises that Australia faces a rapidly evolving economic landscape, shaped by population ageing, growing demand for care and support services, ongoing technological and digital transformation, the urgent challenges of climate change and rising geopolitical fragmentation. In such a dynamic environment, it is imperative that policy settings are regularly reviewed and refreshed to ensure Australia is positioning to maximise economic outcomes and living standards for all.

To drive meaningful gains in productivity, it is necessary to focus on amplifying those initiatives and policy levers that deliver the greatest positive impact, while reducing or retiring measures that are less effective or counterproductive. Across our four submissions to the Productivity Commission, EY has aimed to provide practical, market-based insights grounded in our experience supporting both private and public sector organisations to enhance productivity.

We consider that a clear, evidence-based approach—supported by open dialogue and collaboration between government, industry, and the broader community—will be essential to successfully navigate the challenges ahead and to deliver on the vision outlined in the Australian Government's productivity growth agenda. EY welcomes the opportunity to share further details of our analysis and recommendations as required by the Productivity Commission.

Our submissions have been prepared with the assistance of EY AI tools, for example to support research and proofreading.

David Larocca

Partner

EY Oceania CEO & Regional Managing Partner

Selina Short

Partner

EY Oceania Head of Clients & Industries

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EY considers abundant and affordable energy and a stable and secure climate are essential to the wellbeing and prosperity of Australian individuals, households, regions, businesses and sectors. Effective and efficient climate and energy governance are essential to supporting growth in productivity in Australia.

The response is organised around four main themes:

1. Policy has a crucial role in unlocking the potential benefits of the global and national energy and net zero transitions. EY analysis finds most of the near-term actions required to achieve an ambitious 2035 target will reduce household and business costs as well as emissions.
2. Policy should seek to support an efficient and orderly transition, which will involve a sequence of carefully calibrated policy actions to address barriers to action, unlock external economies of scope and scale and support well-targeted innovation. Policy will therefore need to evolve as information improves and circumstances change.
3. The priorities identified in the Productivity Commission's interim report are generally sound. This includes ensuring efficient and effective electricity market settings; improved incentives for emissions reductions from heavy transport and emissions intensive activities outside the Safeguard Mechanism; simplifying and streamlining project approvals while preserving environmental protections and social licence factors; and improving resilience and adaption of buildings, settlements and economic activity to climate change.
4. Several other policy issues require urgent attention and action to support an orderly transition to a cost competitive clean energy system and net zero national emissions. These include improving policy settings for carbon credits (ACCUs), greater attention to the distribution of benefits from energy market regulation and ensuring treatment of fossil fuel use and exports is coherent and aligned with effective global climate action.

Good policy can maximise the benefits of the energy and net zero transitions

Analysis by EY and others consistently finds that the upside benefits of Australia's energy and nature-based opportunities could be far larger than the costs of participating in global action to limit the risks and costs of climate change. For example, EY's *Seizing Australia's energy superpower opportunities*¹ finds Australia could establish a durable competitive advantage in green iron, critical minerals and other energy-intensive products, and that converting a small share of iron ore exports into green iron could boost economic activity by more than \$60bn by 2050. Related EY analysis of Australia's nature-based advantages found supply of land sector carbon credits (ACCUs) and earning a reputation as a nature-positive economy could boost national income a further \$90bn.²

A recent EY Net Zero Centre report on *Charting Australia's path to 2035 and beyond*³ finds the benefit-cost ratio of effective climate action has improved dramatically over the last 10-15 years, tilting the policy calculus in favour of seeking faster and more ambitious emission reductions, and heightening the importance of good policy design and implementation. Significant ongoing reductions in energy technology costs means many emission reductions opportunities are now 'negative cost', saving money for consumers and business as existing assets are turned over.

The report finds cost effective existing technology can deliver significant cost savings in buildings, transport and heavy industry, and achieve 60% of the abatement required to 2035 (or 80% if the use of ACCUs is also included). Australian Energy Market Operator (AEMO) analysis⁴ finds the lowest cost approach to renewing and expanding electricity supply is to transition to a renewable-based system

¹ [The energy superpower opportunity: Can Australia seize the advantage in a net zero world? | EY - Australia](#)

² [How can the net zero transition create a nature-positive advantage? | EY - Australia](#)

³ [2035 climate target: Eight keys to achieve net zero | EY - Australia](#)

⁴ Australian Energy Market Operator (AEMO), 2024 Integrated System Plan for the National Electricity Market

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(firmed by batteries, pumped hydro and gas-powered generation), saving users in the east coast energy market \$34.9bn to 2050, while delivering lower emissions and new competitive advantage for energy intensive industries. The benefits of clean low-cost electricity can be further multiplied through electrification, switching from gas or liquid transport fuels to electricity. EY analysis finds battery electric vehicles (EVs) can offer cost savings of up to \$1,200 a year, per vehicle, with larger savings available for vehicles that are driven further than average or that are charged from on-site renewables.

Other EY analysis⁵ highlights the rapid evolution of business energy use, and its increasing role as a business differentiator and source of competitive advantage, including in sectors with relatively modest energy intensity.

Delivering Australia's clean electricity transition will be central to achieving abundant and affordable energy and competitive energy-based industries. AEMO finds unlocking the full benefits of electrification will require a 50% increase in electricity supply by 2035 – and 100% by 2050 – relative to 2025 levels. Building and industry electrification along with EVs account for around half of the projected increase in electricity use to 2035, with business accounting for around three quarters of total projected growth. It is clear this will be challenging and will require additional policy action to simplify approvals and reduce unwarranted policy-imposed risks and constraints.

Many well-intentioned policies are no longer fit for purpose, with a variety of planning and regulatory requirements resulting in excessive delays to urgently needed infrastructure projects. EY's executive briefing on *Powering Progress*⁶ finds cumbersome planning and approvals processes slow project delivery, impede supply chain cost efficiencies, and appear to discourage or prevent proponents offering 'first round' proposals that minimise likely community concerns.

Rapid implementation of Environment Protection and Biodiversity Conservation (EPBC) Act reforms are a crucial part of resolving these issues, helping ensure the energy transition is achieved quickly at an efficient and acceptable cost – but not at any cost. Reforms should provide clarity for private and public decision makers, eliminate unnecessary complexity, and establish a coherent regulatory framework that integrates across essential federal, state and local requirements, with built-in fast-track processes for simple decisions and priority projects.

EY considers that environmental policy reforms need to be accompanied by a larger re-think of regulated energy infrastructure. Current mechanisms were largely designed to prevent gold plating and over-provision of quasi-monopoly assets earning regulated returns, at a time when low energy demand growth made approvals less urgent than today. While cost control remains important, the context has changed. Policy should move towards more sophisticated value-for-money assessments of delivery models and give more explicit attention to risk sharing approaches, so that renewable energy projects are approached with a mindset similar to that applied to public-private partnerships (PPPs). Project proponents and energy suppliers should also take greater responsibility for earning and maintaining social licence, including more attention to benefit sharing, and see regulatory compliance as the base rather than the pinnacle of their brand value proposition.

Current approaches to consumer regulation also appear to prioritise the appearance of individual choice over simplicity and effectiveness. EY analysis of distributed consumer energy resources (DER or CER)⁷ finds that current approaches are unlikely to unlock the full potential contribution of these crucial assets, and that changes in regulation and energy supply practices will be required to make orchestration attractive. This includes the possibility that consent to orchestration could be a pre-condition of supplying energy to the grid, at least for all new CER assets. There is an opportunity for policy to establish future

⁵ [Six actions to drive lasting energy prosperity | EY - Global](#)

⁶ [How Australia can fast-track energy transmission | EY - Australia](#)

⁷ [Is Australia ready to orchestrate distributed energy resources? | EY - Australia](#)

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norms and default settings in the next few years, before the vast majority of CER assets required by 2050 are commissioned or installed.

Carefully calibrated policy actions can support an efficient and orderly transition

Clarity about government policy intent, including the need for refinement over time, is crucial to inspire the business and investor confidence necessary for a successful energy and climate transition. National emissions targets give businesses clear policy signals, support cost-effective action, reduce risk, and ensure near-term investments in long-lived assets that do not result in capital scrapping or emissions that must be offset later.

Setting an achievable and ambitious 2035 target is in Australia's national interest: both to support global action on climate change, and to provide a clear signal that Australia is committed to its own transition. Failing to commit to an ambitious target would make it difficult for Australia to attract the international investment, talent and innovation partners required.

Policy support for efficient climate and energy transitions involves up-front incentives or subsidies to ease the transition, leverage private willingness to pay, and establish market-wide external economies of scale. Such support may need to be most generous in early stages, after which support can be wound back. This also applies to system-level support, such as the Capacity Investment Scheme for electricity, or support for suitable and accessible vehicle charging networks.

Policy support is also required for innovation, including the development of new clean industrial processes and products. Australia should focus on future opportunities. EY's report on *Delivering green growth together*⁸ found that addressing innovation-related market failures requires policy levers across the innovation and commercialisation lifecycle, including to address financial friction, risk misallocation, and coordination failures. Policy support for innovation should be generous, awarded on the basis of clear criteria, and tightly focused on areas where Australia could establish a durable competitive advantage. While there is a role for grant funding, where support is more substantial it should be structured so taxpayers get a return on investment if and when innovations are successful. Implemented at scale, this would help narrow the gap between the market value (GDP) and national income (GNI) benefits of new export opportunities.

Policy clarity and clear transition frameworks will also be desirable to signal where industry support is going to be withdrawn or expectations are going to become more stringent over time, so investors can adjust their expectations.

The priorities identified in the interim report are generally sound

EY supports the underlying theme of the interim report's recommendations, that policy should seek to provide a coherent and efficient economy-wide set of incentives and support for Australia's energy and net zero transition. The near-term priority should be addressing existing policy coverage gaps, while longer-term the agenda should be focused on harmonising incentives and strengthening policy drivers.

This recognises that aspects of current settings are ad hoc or no longer fit for purpose, and in some cases impede desired economic adjustments.

Draft Recommendation 1.1

Electricity market settings should evolve to drive abundant low-cost low-emissions energy, including to support cost-effective electrification. The draft recommendation to prioritise enduring and efficient

⁸ [Can green industrial policy be an advantage for Australia? | EY - Australia](#)

electricity market settings make sense and should cover market operations as well as investment decisions and asset retirement.

Draft Recommendation 1.2

Safeguard Mechanism reforms have delivered a flexible market-based approach to driving long term reductions in emissions intensity, without threatening the competitiveness of covered facilities. Consideration should be given to options that reduce the emissions of facilities not covered by current arrangements, on a sector-by-sector basis, particularly where this reduces potential distortions and does not involve unreasonable compliance burdens or transaction costs. Policy should shift away from shielding trade exposed facilities towards border carbon adjustments, where feasible, with international coordination with like-minded jurisdictions.

Draft Recommendation 1.3

Policy should provide long term incentives for efficient low carbon land transport and freight, including through the removal or subsidies or government support that is no longer warranted or efficient. Policy consideration should also account for wider issues, such as congestion, air quality, and efficient ways to provide road funding.

All five options in the interim report canvassed to improve emissions reductions incentives have merit.

Options 1, 2 and 3 would together provide efficient long term foundational incentives and support more efficient and effective road funding arrangements. Future whole-of-system road user charging should account for a carbon component, allowing choice of vehicles while incentivising abatement, as well as charges-based distance travelled, road damage, and incentives to reduce congestion. The carbon component could be achieved as part of a comprehensive road charging scheme (such as Option 1), or separately (as illustrated by Option 2). It should be designed and implemented to contribute to consistent cross-sector abatement incentives that are aligned to emissions targets and increase over time (as discussed in relation to Draft Recommendation 1.4).

More detailed consideration of Option 2, to apply Safeguard Mechanism obligations for downstream emissions on liquid fuel wholesalers, should consider the use of a price-equivalent incentive. Even if applied as a transitional measure, this could help manage for potential unintended effects of adding significant demand for ACCUs in advance of policy refinements to improve ACCU market function and reliability. Potential concerns about cost of living or distributional impacts of reforms to road pricing and abatement incentives could be addressed as part of a wider discussion of tax reform options.

On Option 3, EY considers current fuel tax credit arrangements to be inefficient while also undermining appropriate abatement incentives. We consider reforms along the lines of Option 3 (or similar Grattan Institute (2023, 2025) proposals) to be complementary to Options 1 and 2 and suggest they be considered for coincident implementation.

Options 4 and 5 appear to provide complementary transitional support for technology deployment and external economies of scale. While a case can be made for these measures, they should not be considered as an alternative to the more foundational measures canvassed under Options 1, 2 and 3.

Draft Recommendation 1.4

The notion of assessing target consistent carbon values – or commensurate marginal abatement costs – could make a valuable contribution to policy evolution. Their primary practical contributions are likely to come through:

- Identifying policy areas where existing settings result in 'below benchmark' abatement incentives, including where policies subsidise or exempt activities that generate emissions, and informing

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practical options to improve sector-level incentives and the efficiency of the economy-wide transition.

- Helping to avoid new policies that involve excessive ‘above benchmark’ abatement incentives after accounting for other forms of market failure (such as establishing necessary economies of scale or addressing innovation failures). Existing policies that offer poor value for public money or have undesirable distributive effects should also be wound back.

Draft Recommendations 2.1, 2.2 and 2.3

Reform of national environmental laws is crucial to lift productivity and support the energy and net zero transition, while protecting and maintaining Australia’s unique and valuable natural assets.

Project approvals and regulation should be streamlined and simplified to deliver their core objectives. Reform of national environmental laws should move to use clear map-based regional plans to define what types of development are, and are not, acceptable in different locations.

Policy should also recognise that Australia is committed to achieving net repair and restoration of nature and natural systems, including its commitments under the Global Biodiversity Framework to halt and reverse biodiversity loss by 2030, and to live in harmony with nature by 2050. Current national and state policies are failing to protect Australia’s unique and distinctive natural assets. EY analysis⁹ finds that implementing effective nature protection and repair would provide substantial economic benefits for Australia.

It is also important to recognise that delivering cheaper, cleaner energy will also require reforms to a range of non-environmental regulations that impact energy generation, transmission and use, as noted above.

Draft Recommendations 3.1 and 3.2

Land use planning and approvals for housing and urban settlements continues to exacerbate Australia’s vulnerability to climate change and should be addressed as a matter of urgency.

While improved quality-assured information on climate risks and hazards and a housing-level climate resilience ratings would be valuable, other policy shortfalls are more urgent.

Priorities include reform of council-level approvals processes to prevent high-risk new developments, particularly in relation to flood risk. National and state funding should also be made available to reduce vulnerability and boost resilience to climate threats and hazards.

Other policy issues also require urgent attention for an orderly transition

Thought leadership reports by the EY Net Zero Centre over recent years have identified a range of challenges beyond the priorities identified in the interim report.

Australia’s ability to create and use high integrity carbon credits supports cost-effective abatement and provides crucial support for heavy industry as it transitions to net zero emissions. However, current settings do not provide reliable incentives to invest in additional ACCU supply, in part because of underlying risks of boom-bust market dynamics that might lead to oversupply and sustained low prices. In addition, ACCU’s do not provide a return to Australian citizens for the use of a scarce policy-created entitlement, and market prices do not appear to properly account for their long-term global value. Consideration should be given to establishing a ACCU price corridor (relevant to Recommendation 1.4), involving both a floor and ceiling, and to potential policy mechanisms such as managed ACCU exports

⁹ [How can the net zero transition create a nature-positive advantage? | EY - Australia](#)



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and the use of a royalty to fund nature-restoration. Policy should also ensure there are no unintentional barriers the supply of credits that meet Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) requirements.

Policy should give close attention to the distributional impacts of climate and energy policies. For example, early support for uptake of solar panels through preferential electricity tariffs favoured higher income households at the expense of lower income electricity consumers. CER have a crucial role in supporting affordable electricity, but these assets require orchestration (or external management) to yield the greatest benefits. Policy should ensure CER assets deliver benefits for all electricity consumers, including low-income households, and not just battery-owners and energy service businesses.

Conclusion

It is clear that abundant and affordable energy and a stable and secure climate are essential to boosting productivity and the wellbeing and prosperity of Australia's individuals, households, regions, businesses and sectors.

This implies that effective and efficient climate and energy governance has an essential role to play in supporting the outcomes sought through the Productivity Commission's inquiries. Good climate and energy outcomes are necessary but not sufficient – as reflected in the multiple pillars of the Federal Government's productivity growth agenda. Policy should also account for wider factors and objectives, which for energy and climate policy include air quality, human health, food security, affordability and access to essential services, human appreciation and enjoyment of nature, and Australia's international reputation.



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APPENDIX

References and supporting information

Primary reference:

EY Net Zero Centre, *Charting the path to 2035 and beyond: Eight keys to unlock lower costs, improve security and deliver net zero emissions*, July 2025

Available at: [EY Net Zero Centre | EY - Australia](#) and
[2035 climate target: Eight keys to achieve net zero | EY - Australia](#)

Other references and supporting information:

Australian Energy Market Operator (AEMO), *2024 Integrated System Plan for the National Electricity Market*, 2024

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